

**STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
45 Fremont Street, 21<sup>st</sup> Floor  
San Francisco, California 94105**

**RH03028329**

**September 3, 2004**

**INITIAL STATEMENT OF REASONS**

**CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM**

**INTRODUCTION**

California Insurance Commissioner John Garamendi proposes the amendment of the California Low Cost Automobile Insurance Program Plan of Operations, referenced in Title 10, Chapter 5, Section 2498.6 of the California Code of Regulations. The proposed changes establish an optional electronic application process and performance standards for producers using that method.

The amendments implement, interpret and make specific the provisions of California Insurance Code Sections 11629.7, 11629.71, 11629.74, 11629.79, 11629.9, 11629.91, 11629.94, and 11629.99.

California Insurance Code (CIC) Sections 11629.7 through 11629.999 establish, within the California Automobile Assigned Risk Plan (CAARP), established under Section 11620 of the Insurance Code, low cost automobile insurance pilot programs for the County of Los Angeles and the City and County of San Francisco.

Because the pilot programs are established and administered through CAARP, CAARP procedures are applied where appropriate and not inconsistent with the low cost automobile insurance statutes. Insurance Code sections 11620 and 11624 require the Commissioner to hold a public hearing before amending the plan.

The proposed amendments establish an optional electronic application process and are intended to clarify procedures and standards for producers using this method.

Therefore, the Commissioner is holding this hearing to consider the proposed amendments.

**SPECIFIC PURPOSE OF THE REGULATIONS AND NECESSITY**

The specific purpose of each regulation and the rationale for the Commissioner's initial determination that each regulation is reasonably necessary to carry out the purpose for which it is proposed is set forth below.

## **Introduction**

The existing introduction in the current Plan of Operations sets forth procedures on how to submit an application to the program. The proposed regulations add procedures for a new optional electronic application process, which closely follow procedures for the existing paper application process. Utilization of computer technology to automate steps in the process is intended to streamline the application process. Adopting this regulation is necessary to clarify electronic application procedures so that producers and eligible consumers are knowledgeable about application submission requirements.

Various forms available from the plan administrator are also listed in the existing introductory text. Proposed changes update the list to include the optional online application form and methods to obtain the forms.

## **Section 1. Definitions**

The existing definition of “application” is expanded to include the proposed electronic application form to achieve consistency. A definition for the new electronic application process, referred to as “Electronic Application Submission Interface (“EASi), has been added for ease of understanding. Also, the existing definition of “postmark” has been amended to make clear that it only applies to the United States Postal Service postmark to avoid possible confusion.

## **Section 20 Performance Standards for Producers Writing California Low Cost Automobile Insurance Program Risks**

Existing Section 20 C Maintenance of Records in the current Plan of Operations sets forth record keeping standards for producers writing low cost automobile insurance program policies. Proposed amendments add record keeping requirements for the electronic application process, similar to those for the paper application process. Adopting these changes is necessary to clarify record keeping requirements for producers using the electronic application process. Other changes substitute the acronym “EEDP” in place of references to the “Electronic Effective Date Procedure” to shorten the length of sentences for readability.

## **Section 23. Application Requirements**

Existing Section 23 sets forth standards for submitting application forms. Proposed amendments include a reference to the application form generated by the electronic application process. The rationale for this proposed technical change is to reflect the proposed new optional application process for consistency in standards.

## **Section 28. Application for Assignment, Designation of Insurer, Evidence of Insurance, and Effective Date of Coverage**

The existing Section 28 C Effective Date of Coverage recognizes the United States Postal Service postmark for purposes of establishing the effective date of coverage, consistent with the plan guidelines. To avoid confusion, proposed amendments make clear that metered mail or other computer generated electronic stamps do not satisfy this criteria.

Existing subsection 2 of Section 28 C sets forth general standards for using the Electronic Effective Date procedure (EEDP). The subsection has been re-formatted to add subheadings for Immediate Coverage, Future Effective Date of Coverage, and Retraction Procedures. The

reformatting is for ease of reference. The new provisions clarify procedural standards for using EEDP to establish immediate coverage, future effective dates, and how to retract an unwanted electronic effective date, subject to the assessment of penalty points for violations, consistent with existing compliance measures. In addition, this section adds provisions that set forth procedural standards to be followed by producers using the proposed new electronic application process, subject to identical penalty point assessments for violations of the paper application process. The reason for these proposed amendments is to achieve consistency between the existing paper application process and the proposed new electronic application process and to clarify standards so that producers are knowledgeable about application submission requirements.

### **Section 29 Policy Change Requests**

Section 29 H sets forth standards for establishing an effective date of a policy change request when conditions for establishing an earlier date have not been met. The proposed amendment clarifies that a computer generated electronic stamp is not considered a postmark of the United States Postal Service. This technical change is necessary to achieve administrative consistency throughout the Plan of Operations.

### **IDENTIFICATION OF STUDIES**

The Commissioner has not relied upon technical, theoretical, or empirical studies or reports in proposing these regulations.

### **SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT**

Adoption of these regulations would not mandate the use of specific technologies or equipment or prescribe specific actions or procedures.

### **REASONABLE ALTERNATIVES**

The Commissioner invites public comments on reasonable alternatives which would be as effective as and less burdensome to affected private persons and small businesses.

### **ECONOMIC IMPACT ON BUSINESS**

The Commissioner has initially determined that the proposed regulations will not have a significant adverse economic impact on businesses because insurers and producers are already required to comply with the same requirements and the proposed amendments merely clarify existing standards. The Commissioner invites interested parties to comment on whether the proposed regulations will have a significant adverse economic impact on business.